

AN ANALYSIS  
OF  
CHANGES  
IN THE  
DELAWARE TAX CODE  
1960 - 1974

by  
The Delaware Econometric Model Group

PFI.6  
Finance

AN ANALYSIS OF CHANGES IN THE  
DELAWARE TAX CODE, 1960-1974

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September, 1974

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The responsibility for any remaining errors of omission or commission is mine alone.

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## I. INTRODUCTION

In order to forecast, one must first understand the past. Delaware tax laws and enforcement procedures have changed substantially over the past fifteen years. In order to use past tax receipts in forecasting future state income, it is necessary to review such changes and make appropriate adjustments in the series for their impact. This study is an attempt to draw together the changes which have occurred between 1960 and 1974 in the Delaware tax code, in enforcement procedures and major economic events in the state which resulted in abnormal fluctuations in tax receipts.

The following sections each detail the behavior of a specific tax source and include graphs of the actual and adjusted data. Lists are provided of the code changes and of the other factors influencing the tax data. The text explains how adjustments were made and the conclusion summarizes the major changes in the Delaware tax picture over this period.

We hope this report will be useful to those forecasting state tax revenues. These results are being incorporated into the Delaware Econometric Model and when this has been accomplished, greater in-depth economic analysis can be done on all sectors of the Delaware economy. Any suggestions for additions to or modification of this study would be greatly appreciated.

## II. THE DELAWARE PERSONAL INCOME TAX

The Delaware Personal Income Tax is the largest single source of state revenue. Delaware does not employ a general sales tax (the largest revenue source in many states), so other taxes must generate a larger share of needed revenue than is the case in most states. The ongoing decision to use a relatively high income tax rather than a sales tax in conjunction with a lower income tax is based on public policy toward the effect of taxes on individuals with different incomes. In general, sales taxes are regressive, and even though recent efforts have been made to develop and institute a sales tax excluding those items that contribute most to regressivity, this state has found it preferable to retain and update its progressively graduated income tax.

While rates have always been somewhat progressive, changes during the past few years have made them increasingly so, as shown in Table II-1. The effective rates average out to between three and four percent of Federal Adjusted Gross Income.

One of the benefits of a graduated tax is that it adjusts itself to fluctuations in overall economic conditions. The recent Revenue Study Commission (The Hagemeyer Report) noted that the class of taxpayers earning between eight and twenty thousand dollars of taxable income per year pay the same tax rate and

that because of this, the income elasticity of the tax is not as large as it could be. The commission suggested creating smaller classes in this range to build additional elasticity into the tax.

The tax is based on an income figure which is derived by making some modifications to the federally defined adjusted gross income (computed by each taxpayer in completing his federal tax return which is due 15 days before the due date for state returns). Use of the federal income as a base for state returns began in 1971, stimulating a simplification of procedures and a substantial increase in the collection of taxes owed. There have been suggestions recently for a tax that is simply a percentage of the federal tax paid (supporters of this type of tax note that several states have already implemented such tax structures yielding significant savings in paperwork and record keeping).

Employers withhold income taxes from their employees and deposit those withholdings with the state on a regular basis. Persons not subject to withholding but earning income during the year are required to estimate such earnings as soon as practicable and to pay quarterly installments of their estimated taxes. The combination of withholding and estimation requirements spreads the revenues out over the year so that most taxpayers are on a de facto "pay as you go" schedule. This also results in smaller

peak load problems in collection.

It is state policy to tax all income connected with the state, but at the same time to avoid the inequities of double taxation whenever possible. Thus, residents of the state are taxed on all of their income for the year but are credited for taxes paid to other states, while non-residents pay taxes only on that portion of their income derived from sources within the state. The tax is collected and administered by the Division of Revenue, Department of Finance.

TABLE II-1  
PERSONAL INCOME TAX RATES

Taxable Income	1959	As Of 7/1/61	As Of 8/1/71	As Of 1/1/74
\$ 0- 1,000	1.5%	1.5%	1.5%	1.6%
1,000- 2,000	2	2	2	2.2
2,000- 3,000	3	3	3	3.3
3,000- 4,000	4	4	4	4.4
4,000- 5,000	5	5	5	5.5
5,000- 6,000	6	6	6	6.6
6,000- 8,000	7	7	7	7.7
8,000- 20,000	8	8	8	8.8
20,000- 25,000	8	8	8.5	9.3
25,000- 30,000	8	8	9	9.9
30,000- 40,000	8	9	11	12.1
40,000- 50,000	8	9	12	13.2
50,000- 75,000	8	10	14	15.4
75,000-100,000	8	10	15	16.5
Over \$100,000	8	11	18	19.8

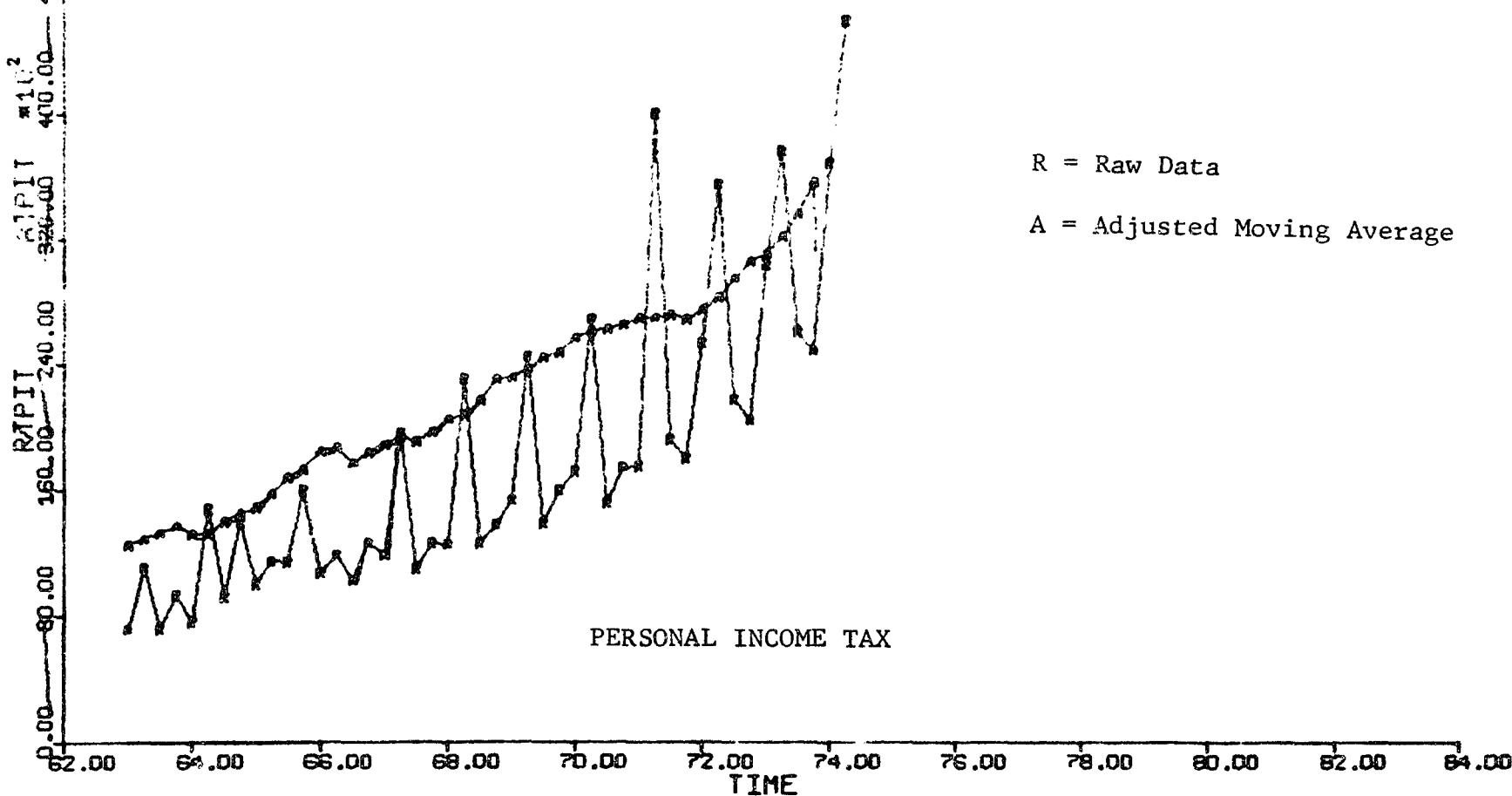
TABLE II-2  
PERSONAL INCOME TAX RECEIPTS  
(\$1,000)

Fiscal Year	Gross Income Tax Receipts	Refunds	Net Income Tax Receipts
1960	\$27,311	\$ 918	\$26,393
1961	29,704	2,254	27,450
1962	36,194	1,570	34,624
1963	34,947	1,471	33,476
1964	38,864	3,510	35,354
1965	44,694	2,511	42,183
1966	49,934	4,801	45,133
1967	54,296	5,338	48,958
1968	59,218	4,664	54,554
1969	66,336	4,916	61,419
1970	74,047	5,561	68,486
1971	90,259	10,815	79,494
1972	98,155	12,436	85,719
1973	110,296	15,643	94,653

ADJUSTMENTS:\*

1. 1960-62, Timing adjustments
2. 1962-72, Divestiture adjustments
3. 1972-73, Capital gains adjustments
4. 1971, Withholding adjustments
5. Rate changes--  
Before 6/74, all data multiplied by 1.1  
Before 9/71, all data multiplied additionally by 1.1426  
Before 5/71, all data multiplied additionally by 1.094  
Before 6/61, all data multiplied additionally by 1.063

\*Also see text following



### Adjustments to Personal Income Tax Receipts Data

The raw data includes many fluctuations that inhibit estimation of future receipts, and even meaningful study of past receipts.

First of all, wide seasonal fluctuations are evident. Because seasonalizing is not practical with this data (the pattern is not sufficiently regular), twelve month moving averages were taken, and the results used to represent the centered month.

Next, research was done into the changes in collections resulting from rate changes, procedural changes, and windfalls. Adjustments were made as follows:

From 1960 through 1962, procedures for estimation, withholding, and final payments of the tax changed. These changes led to several, one-time adjustments.

From 1962 through 1972, the court ordered divestiture of General Motors stock by the DuPont Company led to a windfall of 29.5 million dollars. This money trickled in along with regular tax payments, and was periodically shifted out in large chunks. This resulted in misleading monthly fluctuations over this period. While records do not exist to permit a perfect adjustment, approximations were made.

During 1972, and for half of 1973, 50% of Capital Gains were

not taxable income. To put this period into line with the rest of the data, two million dollars was added in as an adjustment.

In 1961, the rates for incomes of over \$30,000 were raised. After examination of an income level breakdown, it was approximated that the effect of this change was similar to what would have taken place with a 6.3% across-the-board increase. That adjustment was made.

In 1971, three things happened that led to needed adjustments. First, the change to monthly withholding led to an adjustment of \$3,000,000 in May and \$5,000,000 in June. Second, a rate increase for incomes of more than \$20,000 came into existence. The impact of this change, approximated as above (the 1961 adjustment), was 14.26%.

The other change in 1971 was the switch to a modified piggyback method of figuring out the tax (using Federal Adjusted Gross Income). The effect of this change is nearly impossible to accurately determine, but available sources suggest that it was similar to a revenue increase of 9.4%.

In 1974, there was an across-the-board rate increase of 10%, for which the data was adjusted.

The resulting data was then averaged over twelve month periods as before.

DELAWARE CODE CHANGES - PERSONAL INCOME TAX

<u>Effective Date</u>	<u>Description of Change</u>
2-01-61	End of quarterly payments of tax after payment of tax for 1960 which is to be paid $\frac{1}{4}$ by 4/30, $\frac{1}{2}$ by 6/15, and $\frac{1}{4}$ by 10/30.
7-01-61	Rate increase for incomes over \$30,000.
9-09-61	Minor change in withholding procedure.
1-01-62	Allowance for accelerated deduction of losses in "disasters."
4-17-62	Provision for estimation of taxes and payment therefor.
4-19-62	Capital gains from stock distribution to be only 50% taxable (GM-DuPont divestiture).
6-21-63	Exempted income of non-resident partners whose income is not related to the state.
7-18-63	Changed definition of dependent.
12-17-63	Minor easing of refund procedure.
1-01-64	Union dues made deductible.
6-09-65	Foreign corporations withholding Delaware income taxes must post surety bond.
1-01-66	Interest rate for late payments raised from 4% to 6%.
2-25-66	Federal gift taxes no longer deductible.
3-09-66	Provision making information returns (dividends, interest paid) more numerous.
1-01-67	Several definitions changed, non-residents now required to apportion deductions like income, end of reciprocal agreement with Maryland.
1-01-68	Added definition of a deduction for "Head of Household."

<u>Effective Date</u>	<u>Description of Change</u>
1-01-69	Notification of state required for those amending Federal returns, change in treatment of gain from sale of home, deduction allowed for care of dependents to free taxable for work.
6-19-69	Interest rate for refunds raised from 4% to 6%.
6-28-69	Interest rate for late payments raised from 6% to 12%.
7-10-70	Deduction up to \$300 allowed for expenses of adoption.
7-14-70	Interest rate on refunds, late payments where extension is granted raised from 6% to 12%.
7-23-70	Establishment of Finance Department.
1-01-71	Renovation of the Personal income tas, estimation dates to coincide with those for federal taxes.
5-06-71	Those withholding more than \$200 monthly must deposit those withholding monthly.
8-01-71	Rates increased for incomes over \$20,000.
1-01-72	Capital Gains made only 50% taxable.
3-29-72	Date for April estimation changed from 15th to 30th.
1-01-73	Maximum income for those using exemptions raised, everyone now permitted to itemize deductions.
4-26-73	Interest now paid on refunds held over 45 days.
7-01-73	Taxes paid to subdivisions of other states no longer credited.
7-06-73	Capital Gains once again 100% taxable.
1-01-74	Rates raised at all income levels (10% increase).

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## OTHER FACTORS AFFECTING DATA - PERSONAL INCOME TAX

- 1962 - According to the Tax Department, this was a year of improved enforcement.
- 1962-65 - Court forced divestiture of stock by DuPont Company and family led to windfall capital gains inflating income tax receipts by 28.6 million dollars over the years noted.
- 1964 - Refunds were paid relatively earlier than in recent years.
- 1964,65 - Preliminary, final agreement of cooperation with Internal Revenue Service.
- 1964 - (December) Due to the Federal tax cut, many persons paid their state tax early.
- 1965 - All refunds out by end of July.
- 1966 - Tax Department established "Trouble Section" to notify delinquents.
- 1967 - Refunds went slowly (70% by end of July)
- 1968 - Refunds out relatively fast.
- 1968 - Tax Department went to Merit System of employment.
- 1969 - Refunds slow-75% by August 1, 100% by August 15.
- 1970 - Money appropriated for "modernization" of Tax Department.
- 1970 - Six new field auditors hired.
- 1970 - Refunds slow-some say on purpose to make fiscal 1970 look better on paper.
- 1971 - Division of Revenue began using computers.
- 1972 - Refunds very late--not all out until October.
- 1972 - According to independent auditors, the year marked a "significant turnaround in performance" by the Division of Revenue.

1973 - Refunds out quickly--resulted in \$5 million paper cost in fiscal 1973.

1974 - Refunds out quickly--94% by May 30.

### III. CORPORATION FRANCHISE TAX

The Franchise tax is the price a corporation must pay to enjoy the benefits of being incorporated under the laws of Delaware. This tax is levied upon all domestic corporations regardless of whether they do any business in the state.

Delaware is often referred to as "The Corporation State" because of the extraordinarily large number of incorporations here (including approximately 40% of the companies listed on the New York Stock Exchange, and a majority of the 100 largest corporations in the country). While the Delaware Franchise tax is not high, there are many states with lower ones, and others with no such tax at all. Thus, while the tax cost of locating in Delaware is certainly one factor affecting decisions on where to incorporate, the major "drawing card" of the state is its combination of an updated legal framework favorable to corporations and a predictable, efficient court system.

The tax is imposed on all corporations except banks, building and loan companies, companies with assets in unfriendly nations, agricultural cooperatives, drainage companies, and religious, charitable, and education organizations.

It is based on either the total number of authorized shares of capital stock or gross assets (a term left undefined until July 16, 1974), whichever calculates to be the lesser tax.

Corporations which are inactive for a tax year pay only 50% of the normal tax payment usually required.

An important feature of the Delaware system is the existence of both a minimum and a maximum tax (\$20, \$110,000, except Regulated Investment companies, for which the maximum is \$55,000). A 1969 report showed that 30 companies were paying the maximum \$110,000 figure, while 10 were paying the \$55,000 maximum. The significance of these rates is evidenced by the fact that in 1962, General Motors acknowledged that without the ceiling, they would have owed \$1,300,000 under the then existing rates. There has been constant debate as to what effect an increase in the maximum tax would have, would revenues be increased or would enough corporations leave the state or decide not to move here to make such an increase fruitless? Several studies have expressed the belief that since it is the General Corporation Law and not the Franchise tax that attracts corporations, significant untapped potential still exists and an increase in the maximum would be an easy way to increase state revenue. Those opposing such a move, including the Department of State, note that Delaware, while collecting less than some states in absolute dollars, relies on the franchise tax for a much greater percentage of its revenue than any other state. Because of the size of this percentage, those people do not want to risk losing the "goose that lays the golden egg."

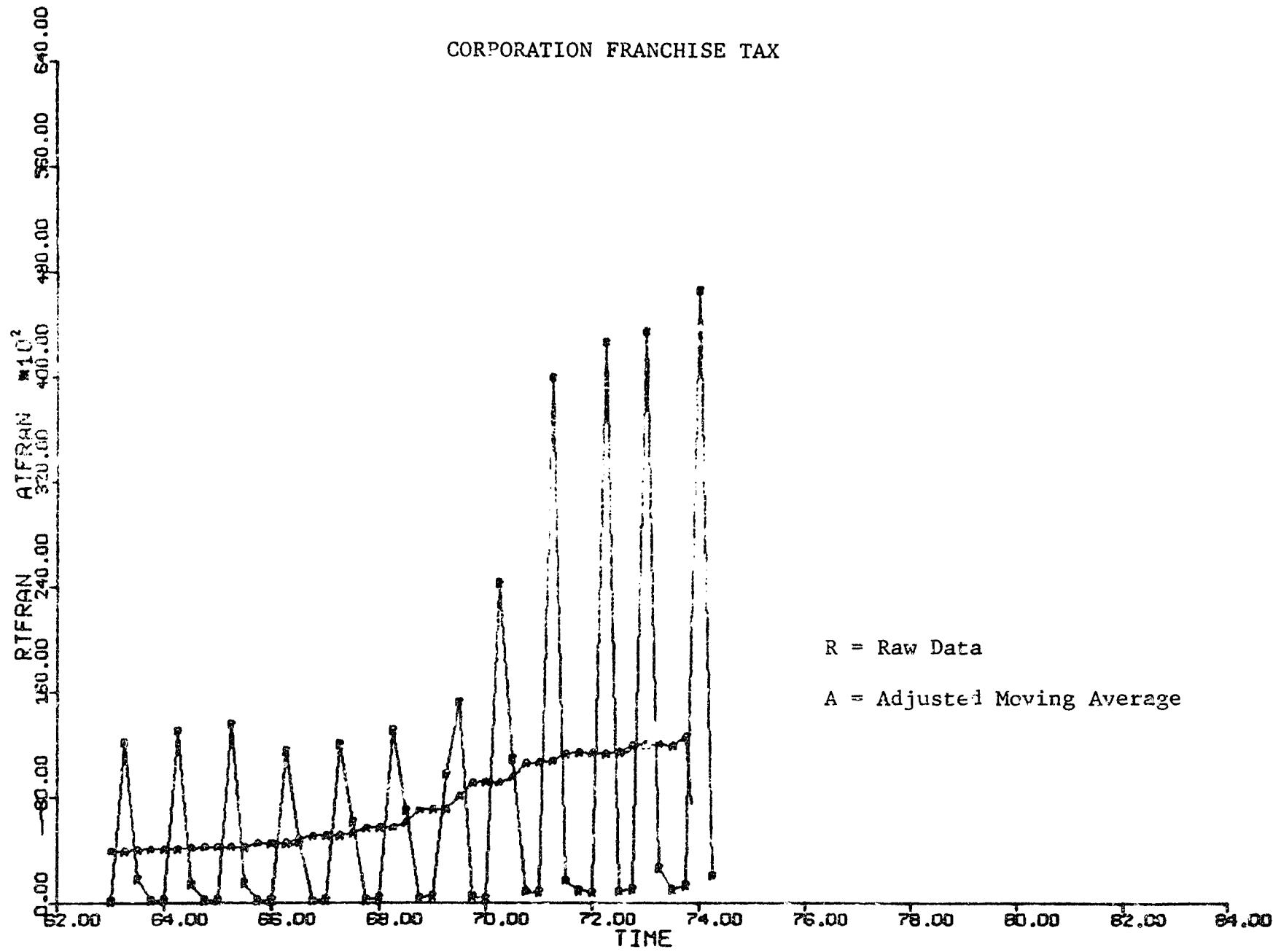
Payment of the tax is due annually on March 1, and corporations in arrears for more than one year have their charters voided. Under a recently changed procedure, the corporations determine their own tax bill and file a return with their payment.

The tax is collected and administered by the Franchise Tax Division, Department of State.

TAX DATA

VCT

CORPORATION FRANCHISE TAX



### Adjustments of Franchise Tax Data

Several adjustments were made on the data for Franchise Tax collections.

First, recent changes in due dates necessitated a shifting of data from one month to another (for instance, data for July, for the years in which the tax was due July 1, was shifted to March, since the tax is now due on March 1) in order to have a consistent and usable pattern.

Because of late deposits arising out of Fiscal Year budgetary "games" the figures for June and July of 1969 were reversed.

Prior to the increase of the maximum tax to \$100,000 (in 1961), \$1,250,000 was added to each year's figures.

Prior to the 10% rate increase in 1970, all data was adjusted upward by a factor of 1.10 to compensate.

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DELAWARE CODE CHANGES - CORPORATION FRANCHISE TAX

<u>Effective Date</u>	<u>Description of Change</u>
1-01-61	Maximum tax raised from \$50,000 to \$100,000. Maximum for Regulated Investment Companies stays at \$50,000.
6-28-63	Minor procedural change shortening period for filing of annual report.
1-01-66	Minimum tax changed to \$10 for companies with less than 1000 shares (was \$5.50 for less than 250, \$11 for 250-10,000). Review and appeal procedures changed.
9-01-66	Moved from Tax Department to Department of State.
7-15-69	Minimum tax raised to \$20, maximum to \$110,000, others up 10%.
1-01-70	Professional corporations no longer exempt.
7-01-70	Last day for payment changed from July 1 to June 1.
1-01-71	Corporations in arrears for one year will be voided (was 2 years).
7-05-71	Investigations of corporations failing to file made discretionary.
1-01-73	Last day for payment changed to March 1, corporations now figure out own tax and file returns.

OTHER FACTORS AFFECTING DATA - CORPORATION FRANCHISE TAX

- 1962 - Overstated relative to 1961 by delays (June, July, 1961)
- 1964 - Computers used by Tax Department for Franchise tax
- 1966 - Back to manual administration in State Department
- 1967 - Major revision of General Corporation Laws
- 1969 - July overstated by late reporting
- 1970 - Field audits began
- 1971 - State Department switched to computers
- 1973 - Return system more efficient, according to State Department

#### IV. CORPORATION INCOME TAX

The Delaware Corporation Income Tax was instituted in 1958, and is similar to taxes in neighboring states. Two departures from the "usual" corporation income tax are present and notable --Investment and Holding Companies are exempted, and liberal deductions are allowed with respect to intercorporate dividends and interest from investments. There have been recent moves to put the Delaware tax in line with the others, but so far these peculiarities remain at least partially in force.

Certain groups of corporations are exempt in addition to those named. Included in this category are insurance companies, domestic international sales corporations, fraternal organizations, corporations or trusts created for religious, charitable, scientific, or educational purposes, and non-profit corporations in general.

Both domestic and foreign corporations are subject to this tax, which is levied on net income from business activities and/or property within the state. If a company does all of its business in the state, taxable income is substantially that computed for federal purposes. Companies doing some business and/or owning some income producing property outside the state pay for only that part of their income connected with the state. This figure is ascertained by averaging three ratios (property

owned in the State/all property owned, wages and salaries paid in the state/all wages and salaries paid, gross receipts in the state/total gross receipts) and taking the resulting proportion of the company's total Federal net income.

The fact that Delaware has no sales tax, coupled with the fact that her neighbors do, means that non-residents often do their shopping in this state. Therefore, it is conceivable that changes in sales taxes in these neighboring states could affect sales, thus profits, and thus corporation income tax revenues in Delaware.

The present rate of the tax is 7.2%, and the tax is payable on the first day of the fourth month following the end of the company's fiscal year (about 60% are calendar year companies, paying on April 1). A tentative payment of an estimated 50% of the tax is made each year on the first day of the fourth month of the current year.

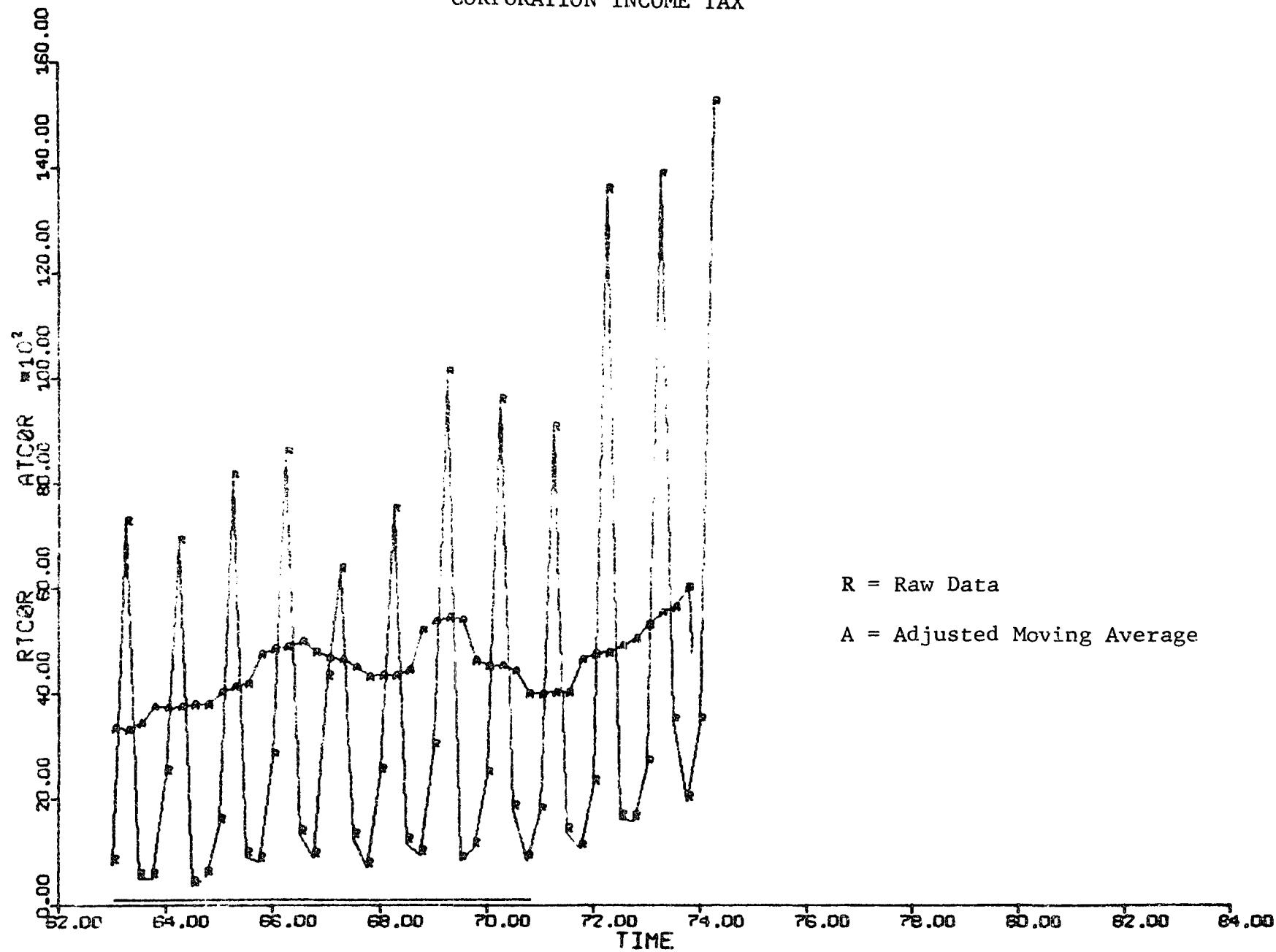
To encourage community awareness and improvement, a deduction of up to 5% of the tax or \$50,000, whichever is smaller, is allowed to companies involved with "neighborhood assistance." This deduction cost the state over \$550,000 in its first three years, but presumably, the benefit to the state from these assistance projects is such as to justify the deductions.

The tax is collected and administered by the Division of Revenue, Department of Finance.

V8I

TAX DATA

CORPORATION INCOME TAX



R = Raw Data

A = Adjusted Moving Average

### Adjustments of Corporation Income Tax Data

There have been two rate changes since 1960 for which it was necessary to adjust the data.

In 1968, the rate was raised from 5% to 6% of net income, and then in 1971 the rate was upped to its current level of 7.2%.

Due to these changes, the data up to December 1969 has been multiplied by 1.44 while that up to December 1971 was upped by a factor of 1.20.

DELAWARE CODE CHANGES - CORPORATION INCOME TAX

<u>Effective Date</u>	<u>Description of Change</u>
4-06-60	Small change in refund procedure.
1-01-66	Interest rate for late payments raised, 4% - 6%.
1-01-68	Neighborhood tax credit introduced.
5-08-69	Penalty for failure to file up to 5% per month.
6-19-69	Interest rate for those granted extension raised, 4% - 6%.
6-28-69	Interest rate for late payments raised, 6% - 12%.
7-01-69	Tax rate raised, 5% - 6%, tax base widened to include some of interest, capital gains, interest.
7-14-70	Interest rate for those granted extension raised, 6% - 12%.
7-23-70	Shifted to Department of Finance.
8-01-71	Surcharge into effect, 20% of tax
1-01-72	Domestic international sales corporations exempted.
7-01-72	Neighborhood tax credit changed to deduction.
1-01-73	Expenses relating to interest income from U. S. securities must be added in to get Delaware taxable income, discretion allowing in weighting of three factors for non-residents, no interest is to be charged for an underestimation if it is at least as great as the previous year's actual income, but in general penalties for lateness, etc. apply to tentative payments.
7-01-73	Surcharge ends.
7-06-73	Tax rate raised to 7.2%, refunds are to be paid from General fund.

OTHER FACTORS AFFECTING DATA - CORPORATION INCOME TAX

1960 - Steel strike

1962 - According to the Tax Department, this was a year of improved enforcement

1965,66 - Enforcement again stepped up

1968 - Tax Department went on Merit system for employment

1970 - Money appropriated for "modernization of Department"

1970 - Major strikes

1970 - Field audits began in July

1971 - Department began to use computers

1972 - Independent auditors noted "a significant turnaround in performance" by Division of Revenue.

## V. MOTOR FUEL TAXES

The Delaware Motor Fuel Tax is divided into two parts--the Gasoline Tax and the Special Fuels Tax. The current rates are 9¢ per gallon for gasoline and 8¢ per gallon for special fuels.

The tax is imposed on all motor fuel sold at retail or used in the state. Fuel sold to the state or its political subdivisions and that used for private use of the streets and highways (such as for lawn mowers, farm vehicles, boats, airplanes, etc.) is exempt from the tax.

Distributors and retailers must make reports and pay their taxes monthly. Both distributors and retailers must also be licensed, and bonded.

There is a related tax which indirectly affects the Motor Fuel tax receipts. That is the Motor Carriers Road Tax. This has been imposed to assure that users of the state's highways pay their share of the expenses of maintaining the roads even if they do not purchase their fuel here. Undoubtedly, the imposition of this tax and the way it is set up have caused many road users to buy their gas, or at least part of it, in Delaware.

The Motor Fuel Tax is typical of a consumption based tax

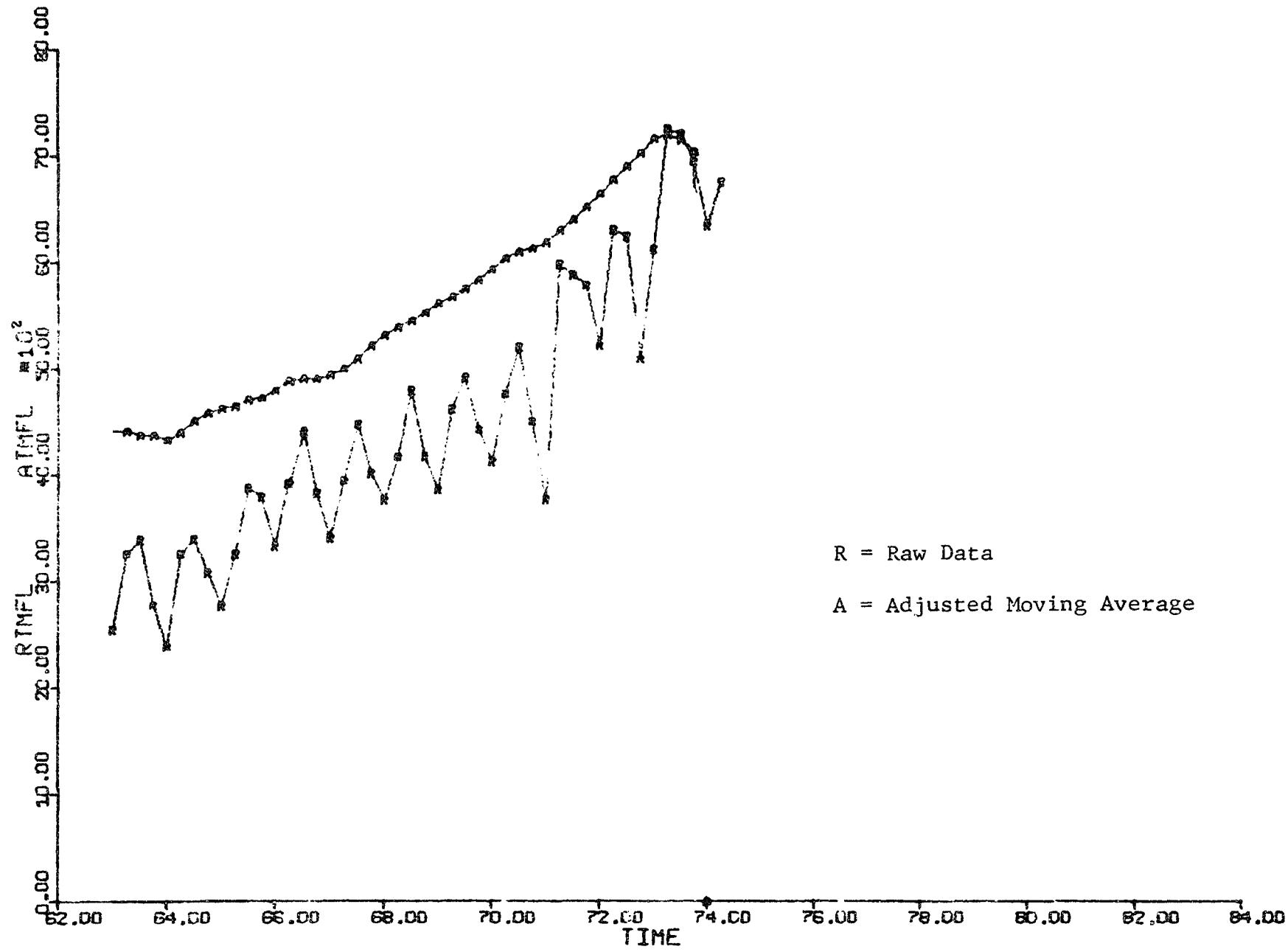
in that it affects the incomes of lower middle class taxpayers more (percentage-wise) than it affects others.

The tax is collected and administered by the Motor Fuel Tax Division, Department of Public Safety.

TAX DATA

23A

MOTOR FUEL TAX



### Adjustments of Motor Fuel Tax Data

There were three different types of adjustments made in the data for Motor Fuel Tax collections.

One type had to do with a late report by one large oil company. This resulted in changes of the figures for December 1973 (from \$1,891,000 to \$2,142,000) and January 1974 (from \$2,557,000 to \$2,234,000).

The second type of adjustment was due to procedural inefficiencies while the tax was the responsibility of the Division of Revenue, from July 23, 1970, until July 17, 1973. The data during this period has been smoothed into a more regular pattern, while the overall total has been retained.

The other type of adjustment was due to the various rate changes. The rate went from 5¢ per gallon to 6¢ on December 15, 1961, to 7¢ on August 1, 1965, to 8¢ on August 1, 1971, and to 9¢ on August 1, 1973. On July 1, 1967, sales to the state and its political subdivisions were exempted from the tax, and this led to an adjustment of about 2%. The following factors were used to properly adjust the data for these changes in rate (actual or effective): 1.764 up to 12/61; 1.47 up to 8/65; 1.262 up to 6/67; 1.28 up to 8/71; and 1.125 up to 8/73.

DELAWARE CODE CHANGES - MOTOR FUEL TAX

<u>Effective Date</u>	<u>Description of Change</u>
12-15-61	Rate raised for all fuels from 5¢ per gallon to 6¢.
7-16-63	Tax divided into Gasoline, Special Fuel, procedures revamped, provisions for licenses, bonds instituted.
6-09-65	Maximum rebate from this tax to municipalities raised from 1.2 to 2 million dollars (no effect on receipts).
8-01-65	Rate for both classes raised from 6¢ to 7¢.
7-01-67	Sales to the state and subdivisions thereof exempted.
7-01-70	Institution of Motor Carriers Road Tax
7-23-70	Collection and administration duties moved from Highway Department to Finance Department.
8-01-71	Rate for both classes raised from 7¢ to 8¢.
1-01-71	Adoption of reciprocal agreement with other states regarding exemption from Motor Carriers Road Tax-- presently affecting only Pennsylvania, but potentially any other state adopting similar agreements.
7-17-73	Collection and administration duties moved from Finance Department to Department of Public Safety.
8-01-73	Rate for gasoline only temporarily raised (through 6-30-74) to 9¢ (was permanently raised to 9¢ in June of 1974).

OTHER FACTORS AFFECTING DATA - MOTOR FUEL TAX

1964 - Completion of Delaware Turnpike

1973,74 - Fuel crisis, voluntary rationing

Gasoline tax rates in neighboring states per gallon

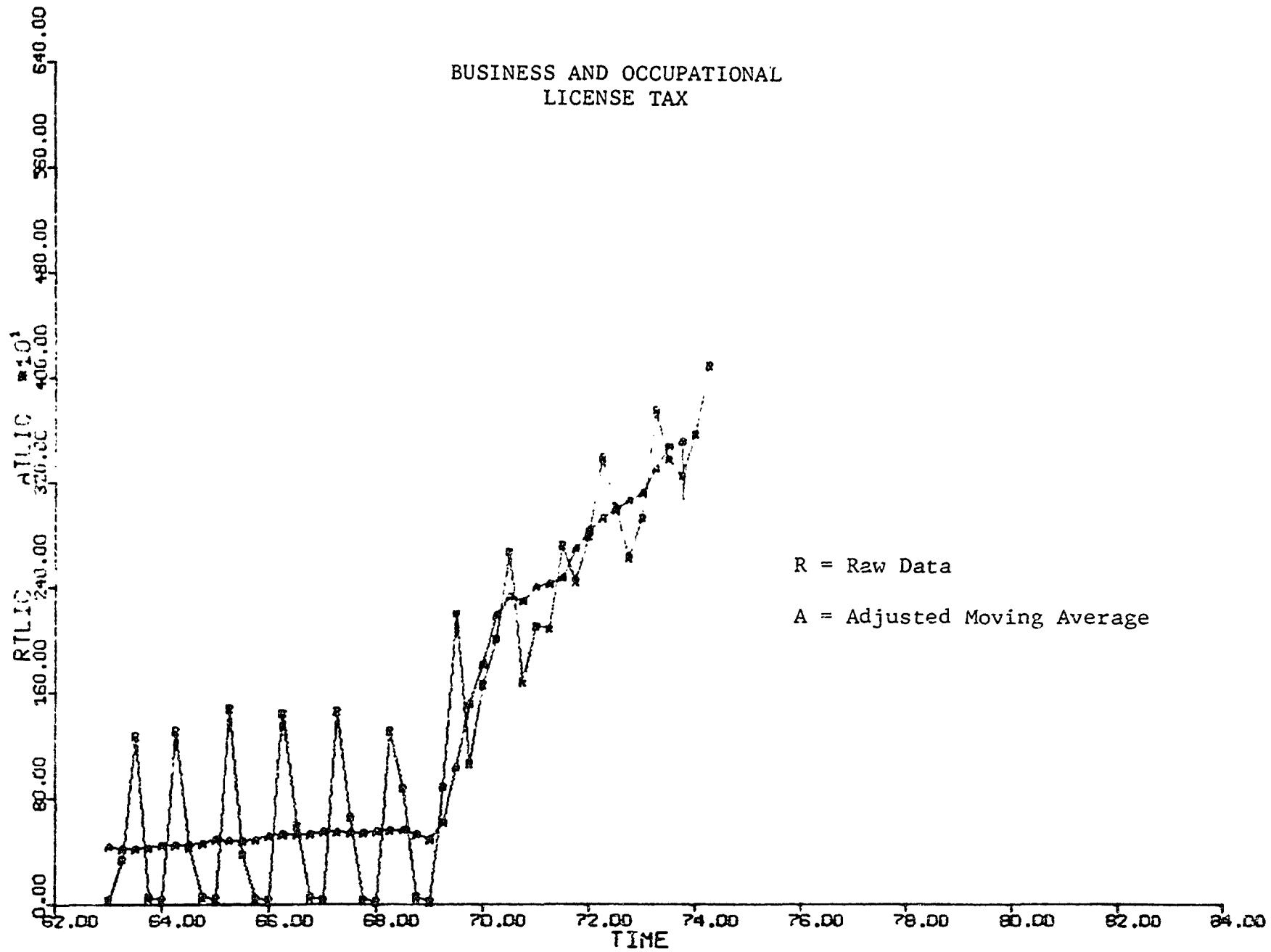
	1959	60	61	62	63	64	65	66	67	68	69	70	71	72	73
Del.	5	5	5	6	6	6	6/7	7	7	7	7	7	7/8	8	8/9
Md.	6	6	6	6	6	6	7	7	7	7	7	7	7	7	9
Pa.	5	5	7	7	7	7	7	7	7	7	7	7	8	8	8
N.J.	5	5	6	6	6	6	6	6	6	6	7	7	7	7	8

## VI. BUSINESS AND OCCUPATIONAL LICENSE TAX

Licenses are required in Delaware for the privilege of performing certain occupations and conducting certain businesses. Licenses perform both regulatory and revenue functions in that the standards set for issuance of licenses act to regulate while the fees help to build state revenue.

Prior to 1969, rates were quite low, the tax base was fairly narrow, and enforcement was almost non-existent. However, since then, licensing has been updated in all areas. The biggest changes are in the areas of gross receipts of wholesalers, contractors, manufacturers, and others, and of purchases by retailers. In addition to a flat annual fee of \$30 (payable on July 1), each of the above mentioned persons or companies must pay a percentage of their gross receipts or, in the case of retailers, purchases. The fact that retailers pay a percentage of their purchases rather than receipts can be criticized for leading to a higher percentage tax on low mark-up items than on high mark-up goods. The 1969 revision of the law increased the percentage rates drastically and established a system whereby these "fees" are paid quarterly. These gross receipts and purchases percentage fees dominate the totals for this tax category in that they account for approximately 90% while the flat licensing fees account for only about 10%.

The Business and Occupational License Tax is collected and administered by the Division of Revenue, Department of Finance.



### Adjustment of License Tax Data

Because of the massive changes on July 1, 1969, which brought the License Tax from a relatively minor tax position into prominence as a substantial revenue source, comparisons cannot realistically be made from one side of that data to the other. Therefore, no adjustments of importance were made to the prior data.

However, the newer data has been updated to keep it in line with current receipts. Twice, there were lump sums paid as a result of court action for back taxes. These sums (\$1,100,000 from General Motors in August, 1969, and \$132,000 from Delmarva Power and Light in October, 1971) have been deducted from the data as they are misleading to anyone trying to discover payment patterns and trends.

Beginning in May, 1970, the exemption from the mercantile tax was raised from \$25,000 per year to \$20,000 per quarter. The effect of this was about a 4% drop in license tax receipts. In August, 1971, the gross receipts tax rate for manufacturers was raised from .1% to .2%, and since this area of the tax (manufacturers gross receipts) represents about 27% of the total, this change had an effect similar to an overall 13% rate increase.

The two aforementioned changes were adjusted for by

multiplying the data for the period after July 1, 1969, and before September, 1971, by 1.13, and that between July 1, 1969, and May, 1970, by an additional factor of .96.

DELAWARE CODE CHANGES - BUSINESS AND OCCUPATIONAL LICENSE TAX

Effective Date	Description of Change
	Throughout period--minor changes in rates, base.
7-01-69	Massive revision of rates, base, procedures, including: Contractors from \$5, 1/10% to \$30, 1/2% Manufacturers from \$5, 1/40% to \$30, 1/10% Wholesalers from \$5, 1/7% to \$30, 1/5% Retailers from \$5, 1/7% to \$30, 4/5%
4-30-70	Mercantile exemption raised from \$25,000 per year to \$20,000 per quarter.
7-23-70	Collection and administration moved to Finance Department.
8-01-71	Rate for manufacturers raised from 1/10% to 2/10%.
6-30-73	All sales to the state classified wholesale.

OTHER FACTORS AFFECTING DATA - BUSINESS AND OCCUPATIONAL LICENSE TAX

Throughout 1960's--Most lax area of collection

1963 - Some recording of payments delayed by shift to computer

8-19-69 - General Motors paid \$1,100,000 in back fees

9-22-71 - Delmarva Power and Light paid \$132,000 in back fees

1972 - Massive effort by officials to enforce existing laws

Also note sales taxes of neighboring states (accompanying material on Corporation Income Tax), for changes in these taxes may cause more persons to shop in Delaware, thus affecting fees for the businesses involved.

## VII. TOBACCO TAXES

The tobacco taxes of Delaware are divided into two divisions--cigarettes and other tobacco products. Cigarette taxes are based on each ten cigarettes sold, so that the present tax of 7¢ leads to an effective tax of 14¢ per package of twenty cigarettes.

The cigarette tax is imposed by requiring a stamp on each package transferred in Delaware. A stamp is applied only once per package and must be affixed by the first possessor in the state. Stamp affixers must pay for their stamps by the end of the month following their purchases, except that all stamps purchased in June must be paid for in June for fiscal year accounting purposes.

This tax is quite regressive, taking a significantly higher proportion of a taxpayer's income, the lower that income is.

Rates vary widely from state to state and constitute a significant percentage of the price to the consumer, so any changes in the tobacco tax rates between neighboring states can have unexpected results (for instance, even if the overall elasticity of demand for cigarettes is very slight, the availability of lower taxes nearby could lead to an actual decline or more likely a diminution of the expected increase in revenue

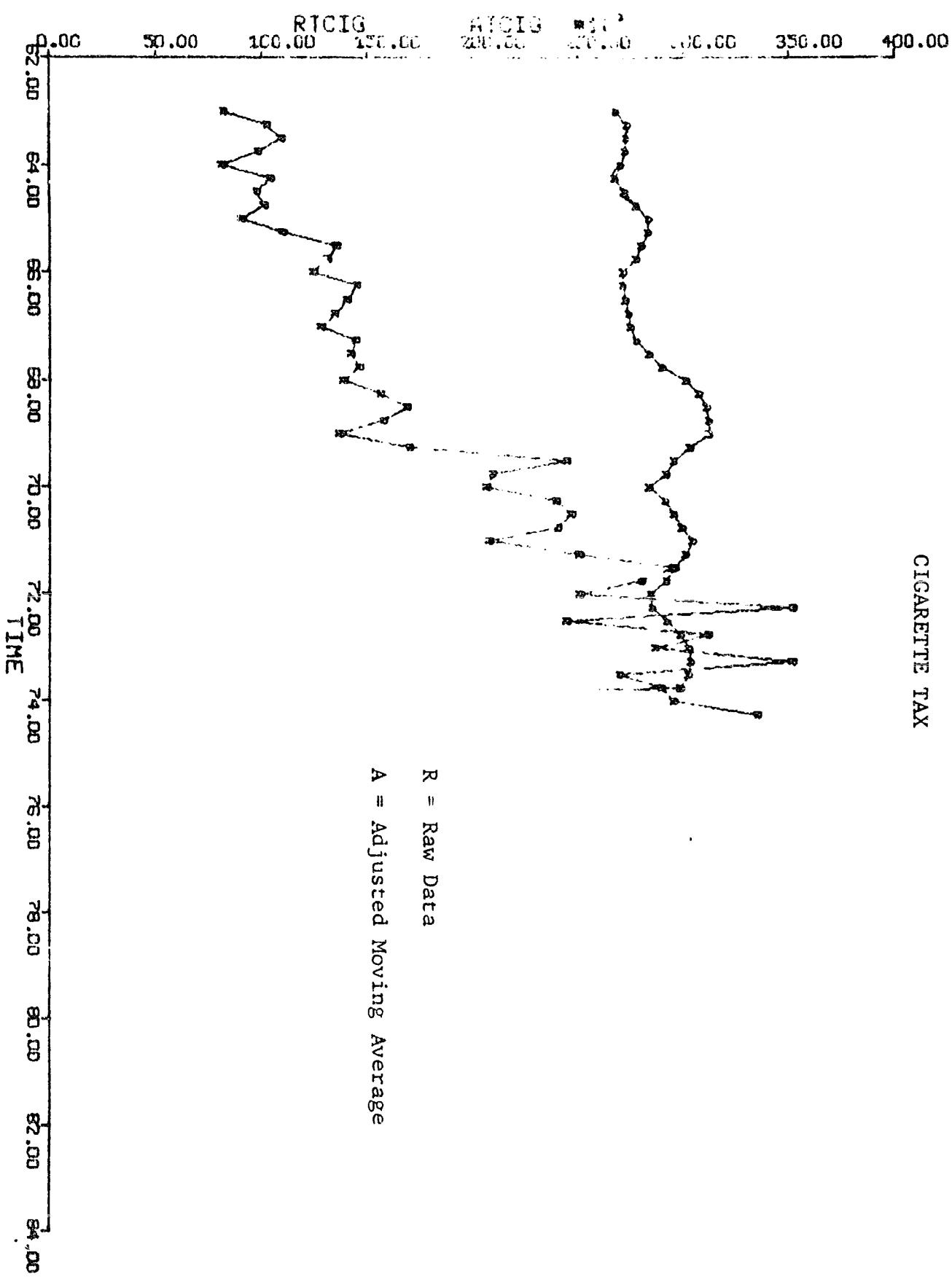
following an increase in tax rate in some circumstances).

Delaware, being a very small state, is especially vulnerable to such effects.

The tax on other tobacco products (30% of the wholesale price) was instituted in 1969, but after collections of only 23¢, a court test led to the invalidation (on Constitutional grounds) of the method of imposing the tax. The tax is still on the books, however, and it seems that it would be a very simple procedure to begin enforcing it. Nevertheless, it has been lying dormant for almost five years.

The cigarette tax is collected and administered by, and the power to collect and administer the tobacco products tax lies with, the Division of Revenue, Department of Finance.

## CIGARETTE TAX



R = Raw Data

A = Adjusted Moving Average

### Adjustments of Tobacco Tax Data

Two types of adjustments were made in the Tobacco Tax Data. First, because of payment deadlines, June is a big collection month and July a small one. This is a recent development, and data for those years prior to 1971 have been changed accordingly.

The tax rate has changed several times: from 3¢ to 5¢ per pack of 20 cigarettes in 1961; to 7¢ in 1965; to 11¢ in 1969; and to 14¢ in 1971. Adjusting for these changes meant multiplying the data by the following factors: before November 1961, 4.67; up to July 1965, 2.80; up to June 1969, 2.00; up to July 1971, 1.273.

DELAWARE CODE CHANGES - TOBACCO TAX

<u>Effective Date</u>	<u>Description of Change</u>
11-01-61	Rate raised from 1½ to 2½ cents per ten cigarettes.
6-01-64	General provisions, procedures of tax updated.
8-01-65	Rate raised from 2½ to 3½
12-22-65	Penalties for evasion of the tax tightened.
7-01-69	Rate raised from 3½ to 5½, 30% tax on other tobacco products imposed.
7-23-70	Responsibility of collection, administration to Finance Department.
8-01-71	Rate raised from 5½¢ to 7¢, stamp affixers now allowed to pay for stamps by end of month following purchase, except in June (previously, payment was required upon purchase).

OTHER FACTORS AFFECTING DATA - TOBACCO TAX

1962 - Field audits began

1965 - Completion of Delaware Turnpike--hurt sales (fewer stopping points)

1966 - State joined a multi-state cooperative to cut down on illegal imports and sales (The North Carolina Operation)

1968 - Increased efficiency, according to the department

1969 - December 17--Court of Chancery finds collection procedure for tobacco products unconstitutional

Rate of tax per twenty cigarettes

State	1959	60	61	62	63	64	65	66	67	68	69	70	71	72	73
Del.	3	3	3	5	5	5	5/7	7	7	7	7/11	11	11/14	14	14
Md.	3	3	3	6	6	6	6	6	6	6	6	6	6	6	6
Pa.	5	6	6	6	6	8	8	8	8	13	13	18	18	18	18
N.J.	5	5	5	7	7	8	8	8	11	14	14	14	14	14	19

## VIII. MOTOR VEHICLE REGISTRATION

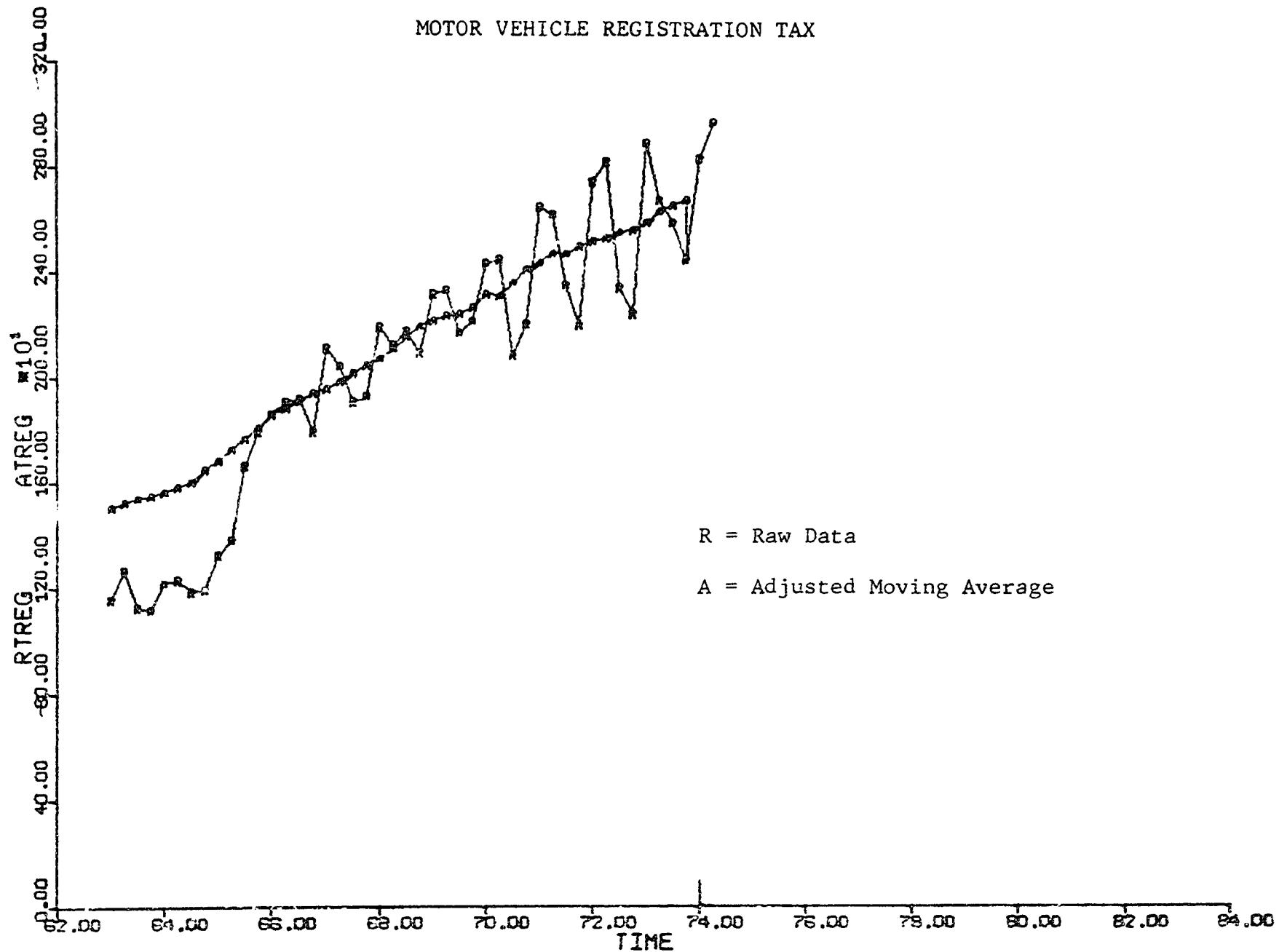
All motor vehicles, trailers, semi-trailers, and pole trailers that are "driven or moved" must be registered and licensed by the state.

There is a flat rate of \$20 per year for "pleasure vehicles," a category that encompasses the vast majority of registered vehicles. The other classes have rates based on the weight of the individual vehicle. The pleasure vehicle rate once was also determined by weight, and the change to a flat rate has brought much criticism from those who feel that the small car owners are paying part of what the big car owners should be paying.

The licenses are valid for one year, and they expire at the end of the corresponding month in which they were issued the previous year. A recent change from quarterly expirations was effected in order to spread the vehicle inspection load out as much as possible and thus to lessen the peak load problems around the deadline dates.

These regulations are administered and fees collected by the Department of Public Safety.

## MOTOR VEHICLE REGISTRATION TAX



Adjustments of Motor Vehicle Registration Data

In 1965, there was a rate change for pleasure vehicles. Prior to the change, those pleasure vehicles weighing more than 4000 pounds were taxed at \$16 per year, while those weighing less were taxed at \$10. After the change, the two classes were eliminated, and all pleasure vehicles were and still are taxed at a rate of \$20 per year.

Since the time of the change, light pleasure vehicles have accounted for about 75.9% of the total tax receipts from pleasure vehicles, and heavy ones about 24.1%, for an overall net increase of 81.9% in the pleasure vehicle category. Since pleasure vehicles were about 39.7% of the total Motor Vehicle Registration Tax, the net effect of the change was an increase of 32.5%, so all data prior to July, 1965, was multiplied by 1.325.

DELAWARE CODE CHANGES - MOTOR VEHICLE REGISTRATION TAX

<u>Effective Date</u>	<u>Description of Change</u>
9-29-61	Small rate increase in some minor areas
7-01-65	Pleasure vehicle rate raised from \$10 (up to 4,000 pounds), \$16 (over 4,000 pounds) to \$20 (regardless of weight).
6-30-70	Changed from quarterly to monthly expirations.
7-06-70	Collection and administration duties moved from Highway Department to Department of Public Safety.
5-21-73	New category introduced, recreational vehicles.

## IX. INHERITANCE AND ESTATE TAXES

Delaware employs both an estate tax and an inheritance tax. The former exists merely to make use of allowances in the corresponding federal law. The latter, which comprises the bulk of the revenue from this source, has a fairly complex rate system, broken down by the amount of the inheritance and the relation of the giver to the receiver (higher rates for more distant relations).

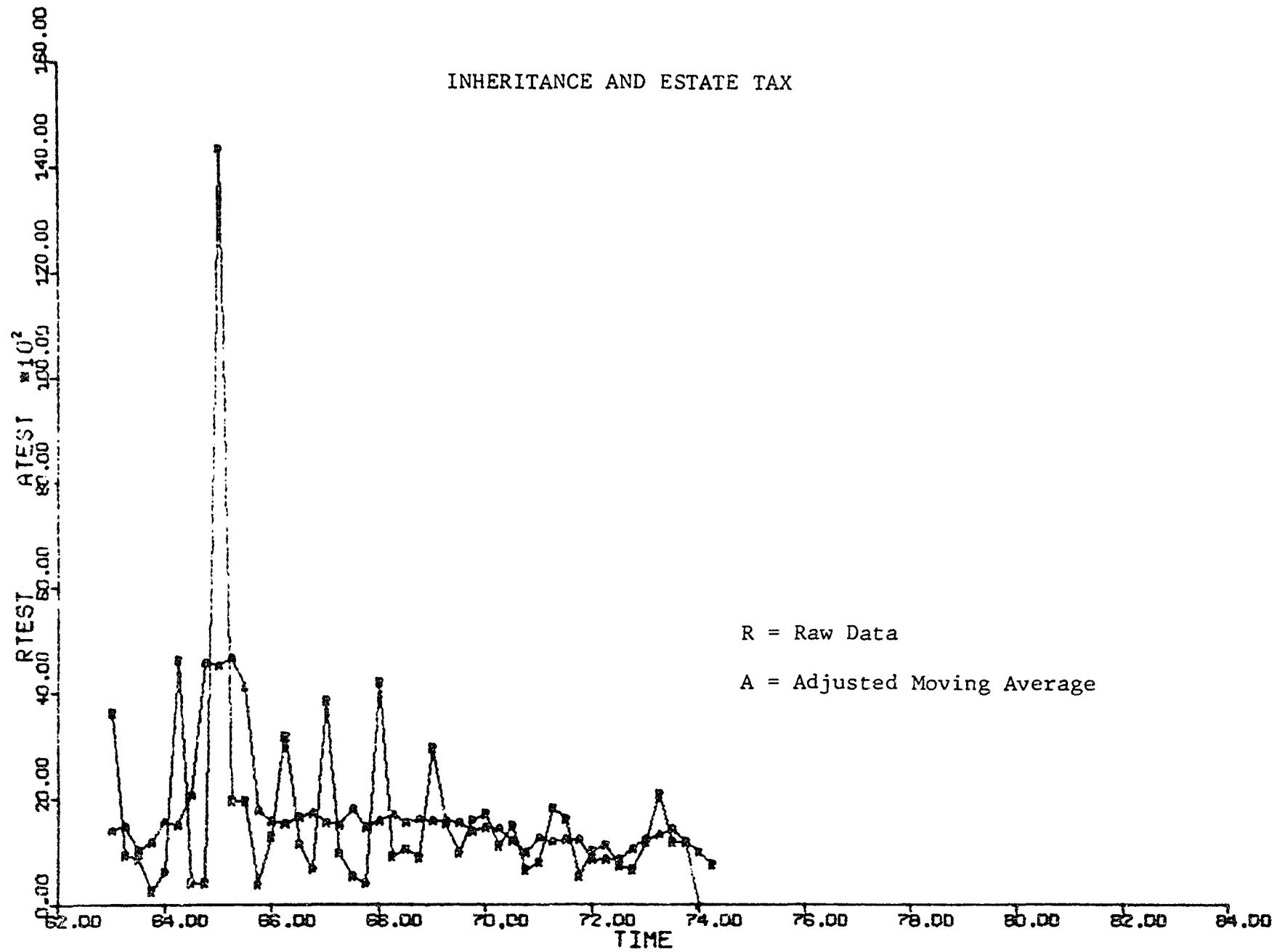
This tax is extremely unpredictable as far as receipts are concerned. Delaware is such a small state (population-wise) that the death of a single very rich person will cause a notable upturn in any year's inheritance taxes. While actuaries can give us a reliable estimate as to the number of Delawareans who will die in any given year, they cannot accurately predict when members of the DuPont family will die. Such a prediction would be needed in order to make any usable forecast of receipts from this tax. The only viable alternatives are (1) to not make predictions regarding this tax, and to consider its proceeds as a windfall of sorts, or (2) to make rough predictions for receipts over a large number of years, and use those receipts for some long term goal.

These taxes are collected and administered by the Division of Revenue, Department of Finance.

TAX DATA

V04

INHERITANCE AND ESTATE TAX



DELAWARE CODE CHANGES - INHERITANCE AND ESTATE TAX

<u>Effective Date</u>	<u>Description of Change</u>
7-30-71	Redefinition of brackets in some areas, and extensive rate increase in all areas of inheritance taxes.
9-30-71	Implementation of State Gift Tax.

## X. ALCOHOLIC BEVERAGE TAX

Taxes are imposed on the distribution of alcoholic beverages in Delaware. All makers, distributors, and retailers of such beverages must be licensed by the state. The tax is imposed on whoever makes the beverages within the state, and whoever brings them already made into the state.

Although tax rates vary widely from state to state and constitute a large percentage of the price to the consumer, probably the largest factor causing Delawareans to buy liquor and beer in other states (which is technically illegal except for one quart per person per day, but unofficially permitted) is the existence of fair trade laws that wholesalers use to their advantage to force sellers in this state to charge artificially high prices. Because of these "laws," discount liquor stores in Maryland are easily able to undersell their "competitors" on this side of the state line.

The current rates are:

Per barrel of Beer -- \$2
Per gallon of Wine -- \$.40
Per gallon of Spirits
25% or less ethyl alcohol -- \$1.50
more than 25% ethyl alcohol - \$2.25

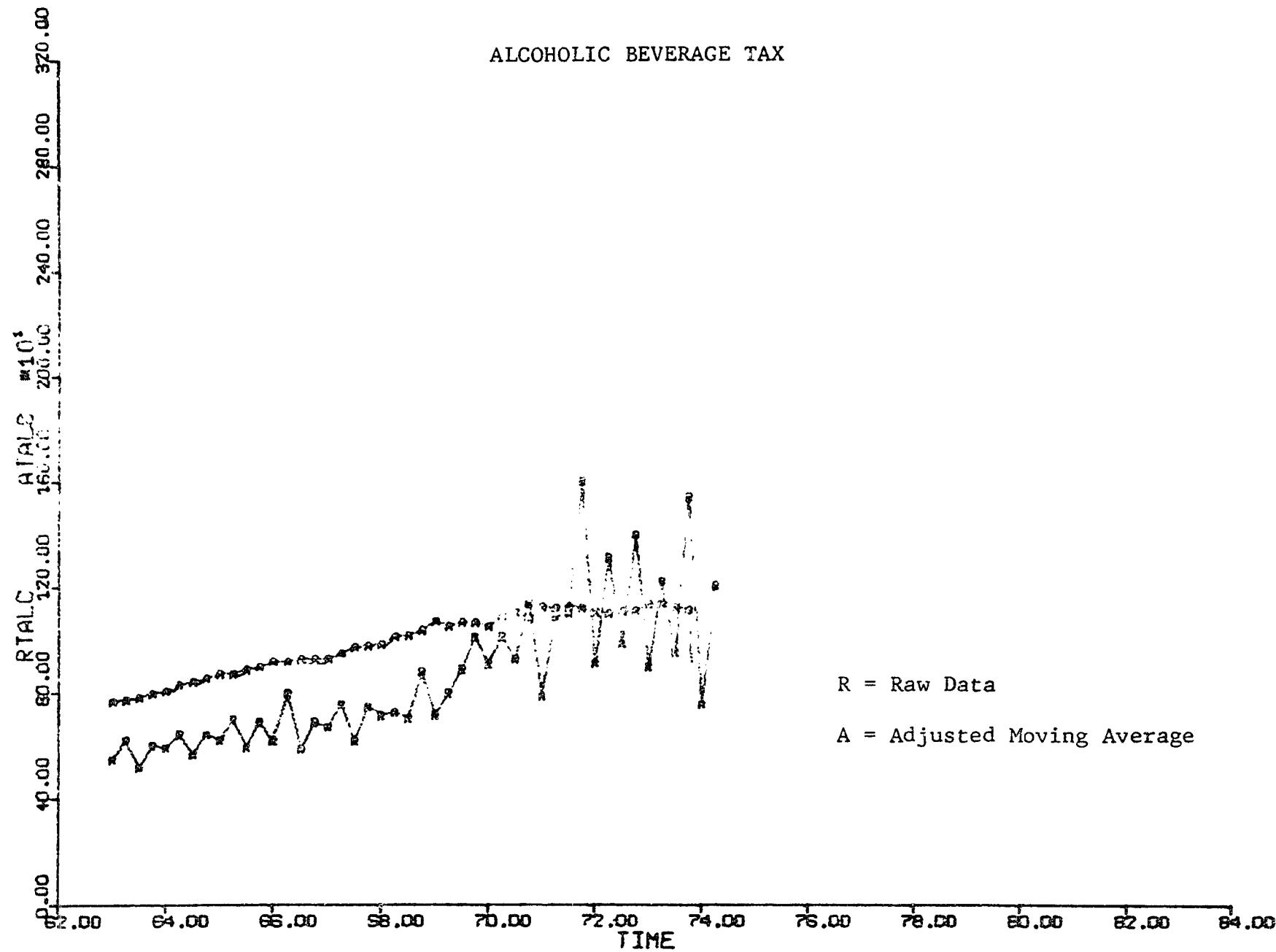
The tax on spirits of more than 25% ethyl alcohol brings in about half of the receipts. Beer is the next most productive area, followed by wine, and then spirits of less than 25% ethyl alcohol.

These taxes are collected and administered by the Division of Revenue, Department of Finance, with aid from the Alcoholic Beverage Commission.

TAX DATA

V34

ALCOHOLIC BEVERAGE TAX



### Adjustments of Alcohol Tax Data

The Alcohol Tax Data as represented here is the sum of taxes on Wine, Beer, Spirits, and other things. The receipts from the Beer Tax comprise about 20% of the total and Wine Tax receipts come to about 10%. Spirits is divided in two groups depending on the ethyl alcohol content. The tax on spirits with less than 25% ethyl alcohol comprises only about 1% of the total, while that on spirits with 25% or more ethyl alcohol accounts for about 50%.

These percentages are vital to judging the effect of rate changes. Adjustments were made as follows.

In 1961, the Wine Tax was raised by 130%, so an adjustment of 13% was necessary. In 1969, the higher Spirits Tax rate was raised by 45%, so an adjustment of 22% was made. In 1971, both Spirits Taxes were increased (low by 67%, high by 36.4%) which led to an adjustment of 18%. Then in 1972, the Wine Tax was lowered by 50%, which necessitated a 5% adjustment.

Specifically, the overall (cumulative) factors were:  
1.545 up to June, 1961; 1.368 up to June 1969; 1.12 up to July, 1971; and .95 up to September, 1972.

DELAWARE CODE CHANGES - ALCOHOLIC BEVERAGE TAX

<u>Effective Date</u>	<u>Description of Change</u>
6-23-61	Rate for Wine raised from 35¢ to 80¢ per gallon.
7-01-69	Rate for spirits more than 25%, from \$1.15 to \$1.65 per gallon.
7-23-70	Collection now by Finance Department.
8-15-71	Rate for spirits more than 25%, from \$1.65 to \$2.25 Rate for spirits no more than 25%, from \$.90 to \$1.50
10-01-72	Rate for Wine lowered from 80¢ to 40¢.
6-25-73	Overall revision of licensing of makers, distributors, retailers.

## XI. PARIMUTUEL SALES AND ADMISSIONS

Revenues from Equine racing establishments is broken into three areas--Horse (Thoroughbred) racing, Horse Racing in Kent County, and Harness Racing.

Taxes are levied in each area both on a per capita attendance base and on the parimutuel handle. Current rates are 10¢ per admission for Harness Racing and Horse Racing in Kent County, 20¢ per admission for Horse Racing, 5% of the parimutuel handle for Horse Racing and Horse Racing in Kent County, and 5½% of the handle for Harness Racing ( $\frac{1}{2}$ % of this tax is earmarked for the Delaware Standardbred Fund).

These taxes are collected and administered by the Division of Revenue, Department of Finance with the aid of the State Racing Commission.

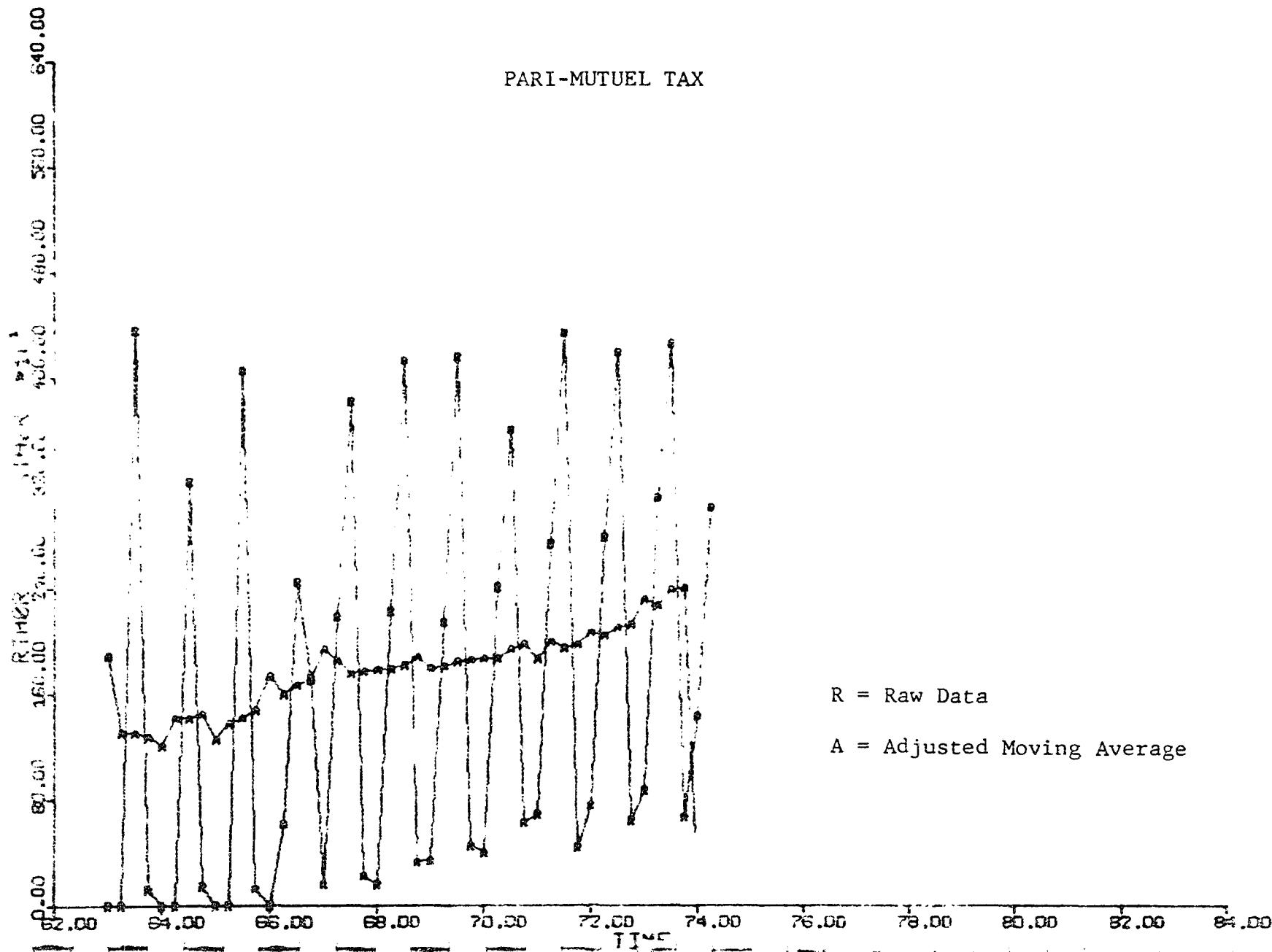
RACING DAYS

Year	60	61	62	63	64	65	66	67	68	69	70	71	72	73	74
Dela. Prk.	55	54	54	52	55	55	55	55	61	60	61	65	64	65	65
Dover Downs (thoroughbred)	0	0	0	0	0	0	0	0	0	54	54	44	43	54	25
Dover Downs (standard bred)	0	0	0	0	0	0	0	0	0	42	85	78	74	75	
Brandywine	*	*	*	*	*	89	75	92	100	101	101	101	101	104	138
Georgetown	*	*	*	*	*	0	68	58	77	65	44	18	29	0	0
Harrington	*	*	*	*	*	36	40	55	62	56	76	62	68	64	80
TOTAL	*	*	*	*	*	170	238	260	300	336	378	375	383	361	383

\* Unavailable

TAX DATA

PARI-MUTUEL TAX



### Adjustments of Parimutuel Sales and Admission Tax Data

The rates for the various sources of this tax have changed numerous times (see Delaware Code Changes). Research showed that recently, the subdivisions paid approximately the following shares of the totals reported here: Horse Racing, 31%; Horse Racing in Kent County, 7%; and Harness Racing, 55%.

The above figures were used along with the rate changes as reported in the Delaware Code to come up with the following factors of adjustments: before June 1965, 1.36; up to July 1965, 1.274; up to June 1967, 1.099; up to December 1967, 1.116; up to May 1970, 1.048; up to December 1970, 1.80; up to July 1971, 1.096; up to December 1971, .97.

This graph must be looked at in conjunction with the table concerning racing days through the years. The receipts by themselves are not regular enough to provide guidance, but when looked at along with the days, some conclusions may be drawn as to the effects of increases and decreases in meet lengths. A reliable adjustment for these changes can not be made because the elasticity of the tax receipts (by racing days) is not close enough to zero.

DELAWARE CODE CHANGES - PARIMUTUEL TAX

<u>Effective Date</u>	<u>Description of Change</u>
	Throughout period--additions to length of permitted meets (increase in total racing dates)
5-26-65	Horse Racing handle rate raised from $4\frac{1}{2}$ to $5\frac{1}{2}\%$ .
7-01-65	Harness Racing handle rate raised from $3\frac{1}{2}$ to $4\frac{1}{2}\%$ .
11-01-65	Georgetown Harness Track opened.
1-01-67	Law clarified to assure prompt payment of taxes weekly.
7-27-67	Horse Racing in Kent County section established, rates 10¢ per admission, $4\frac{1}{2}\%$ of handle.
12-29-67	Harness Racing handle rate raised from $4\frac{1}{2}$ to 5%.
3-08-69	Dover Downs opened.
5-28-70	Horse Racing handle rate lowered from $5\frac{1}{2}$ to 5%.
1-01-71	Horse Racing handle rate lowered from 5 to $4\frac{1}{2}\%$ .
8-01-71	Horse Racing handle rate raised from $4\frac{1}{2}$ to $5\frac{1}{2}\%$ . Horse Racing in Kent County handle rate raised from $4\frac{1}{2}$ to 5%. Harness Racing handle rate raised from 5 to $5\frac{1}{2}\%$ .
1-01-72	Horse Racing handle rate lowered from $5\frac{1}{2}$ to 5%.

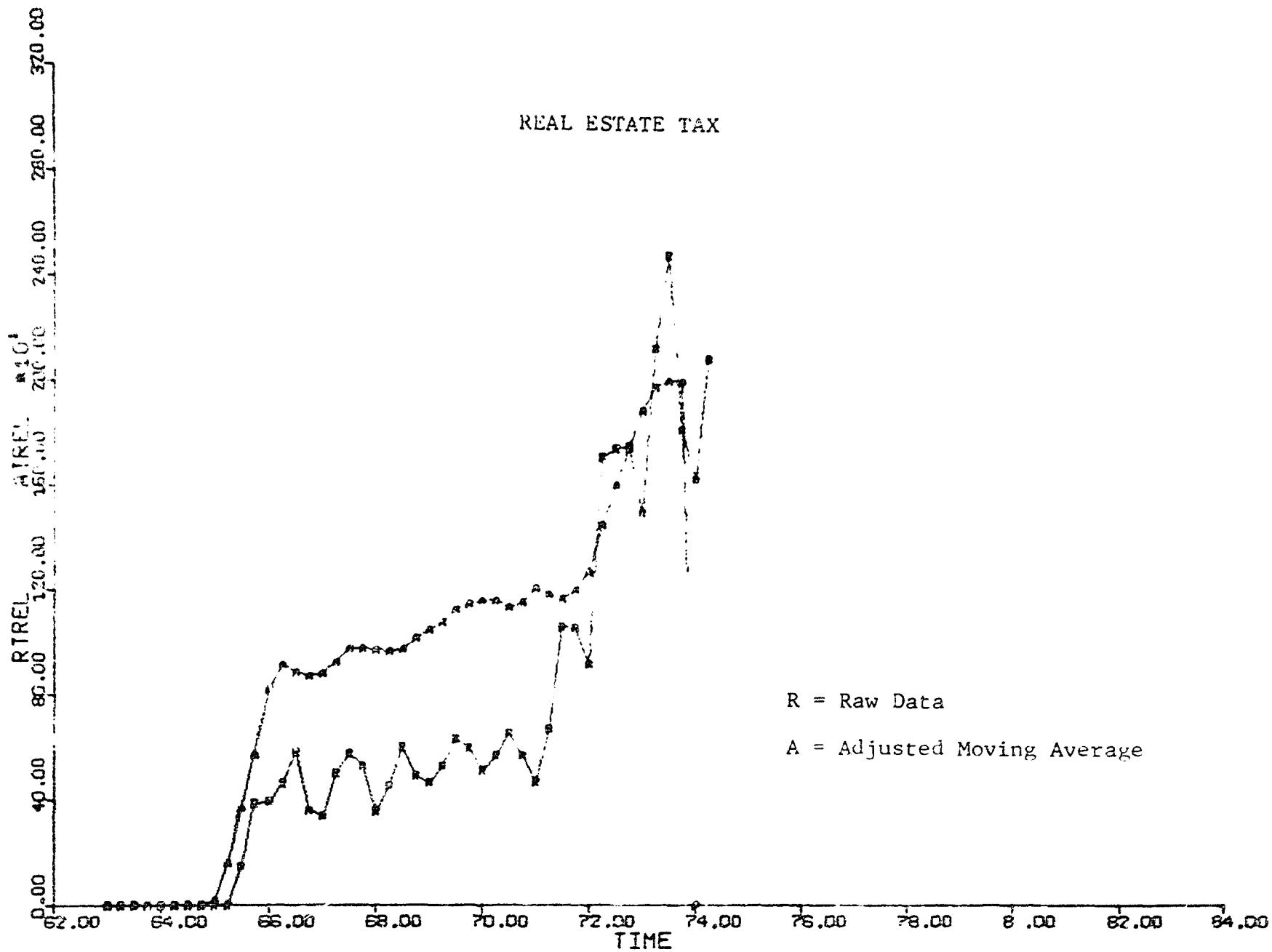
## XII. REALTY TRANSFER TAX

The Realty Transfer Tax is a tax levied on the document transferring ownership of real property. It is levied not only on sales of land (with or without buildings thereon) but applies equally to sales of condominiums and transfers of rights under leases with a potential duration of at least five years. The present rate of the tax is 2% of value, and value is ascertained usually by sale price, but sometimes by other measures.

The tax is collected and administered by the Division of Revenue, Department of Finance.

VUG

TAX DATA



Adjustments of Realty Transfer Tax Data

The only adjustment made in the Realty Transfer Tax data was due to a doubling of the rate as of August 1, 1971. The adjustment was multiplication of all previous data by 2.

DELAWARE CODE CHANGES - REALTY TRANSFER TAX

<u>Effective Date</u>	<u>Description of Change</u>
8-01-65	Effective date of the law (rate--1%).
7-23-70	Collection and administration duties transferred from Tax Department to Department of Finance.
8-01-71	Rate raised from 1 to 2%.
7-07-73	Condominiums and long leases made taxable when transferred.

### XIII. INSURANCE TAXES

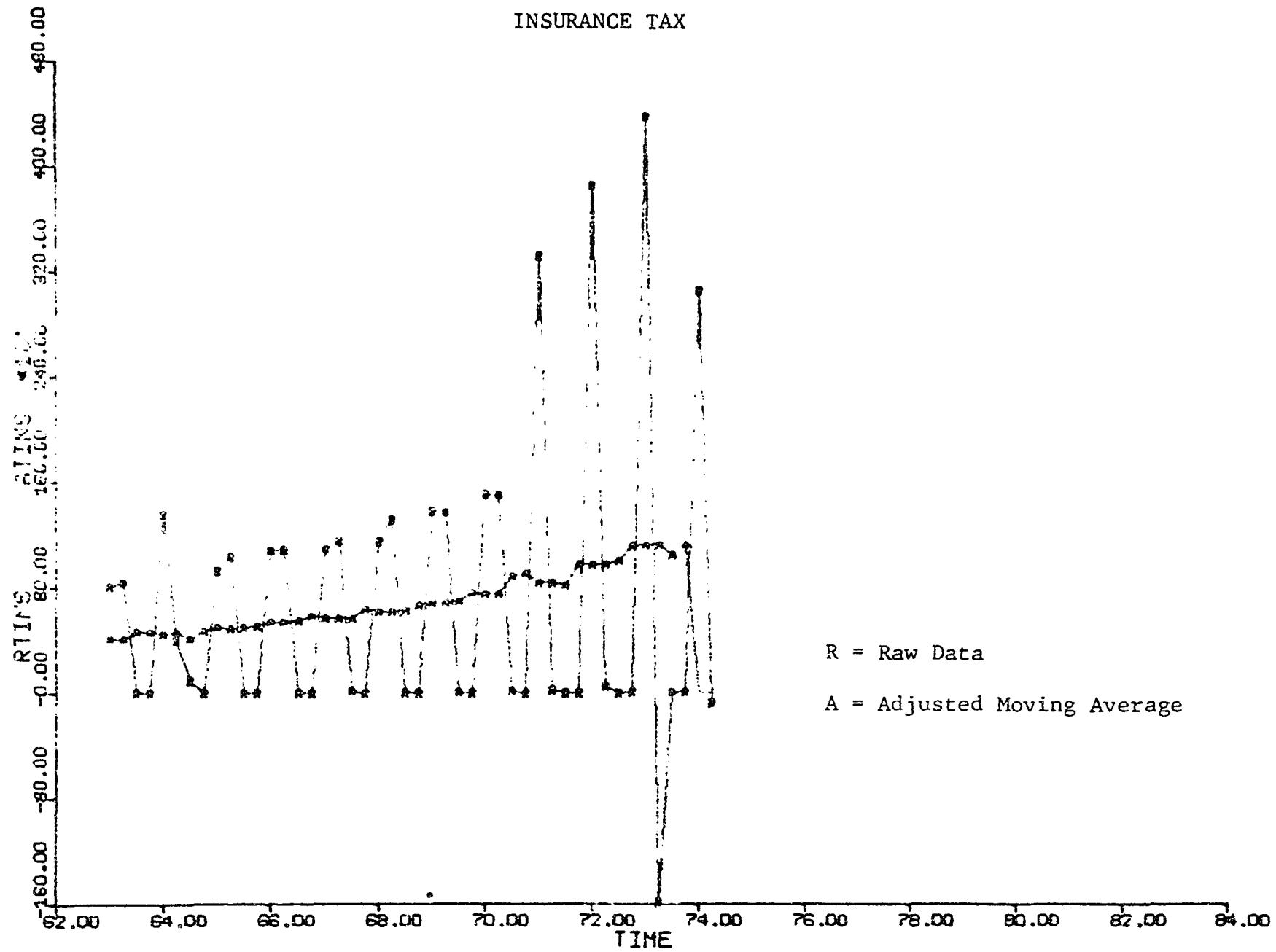
The Insurance Tax in Delaware is based on gross premiums received. The overwhelming majority of premiums are taxed at a rate of 1.75%.

A significant portion of the 1.75% tax goes to help fund fire companies, and that portion is determined each year by the amount of premiums paid for fire and related insurance.

Premiums for workmens' compensation insurance are taxed at a rate of 4%, while profits from marine insurance are taxed at 5%.

The tax is due March 1 each year, and is collected and administered by the Insurance Commission.

## INSURANCE TAX



### Adjustments of Insurance Tax Data

Beginning in 1972, the Fire Tax was taken out of the 1.75% Insurance Tax receipts, rather than being collected separately. Therefore, each year beginning with 1973, an adjustment must be made to make up for the transfer of funds for this purpose.

Thus far, this transfer has been made as a lump sum in April, and amounted to \$1,697,000 in 1973 and \$1,780,000 in 1974. Adjustments were made to the data accordingly.

### DELAWARE CODE CHANGES - INSURANCE TAXES

<u>Effective Date</u>	<u>Description of Change</u>
1-01-72	Fire tax now deducted from 1.75% tax receipts and transferred to a special fund instead of originally going into the special fund. Tax is now paid by all insurers, and not just fire insurers.

#### XIV. PUBLIC UTILITY TAX

The Delaware Public Utility Tax is a tax placed on telephone, telegraph, gas, electricity, and cable television usage. It is imposed in addition to other taxes such as license taxes, income taxes, and specialized gross receipts and privilege taxes.

This tax in its present form was instituted in 1971, and has been criticized because of its regressive features; that is, it taxes essentials such as power for heating, cooking and lighting and as such, hits the low incomers the hardest.

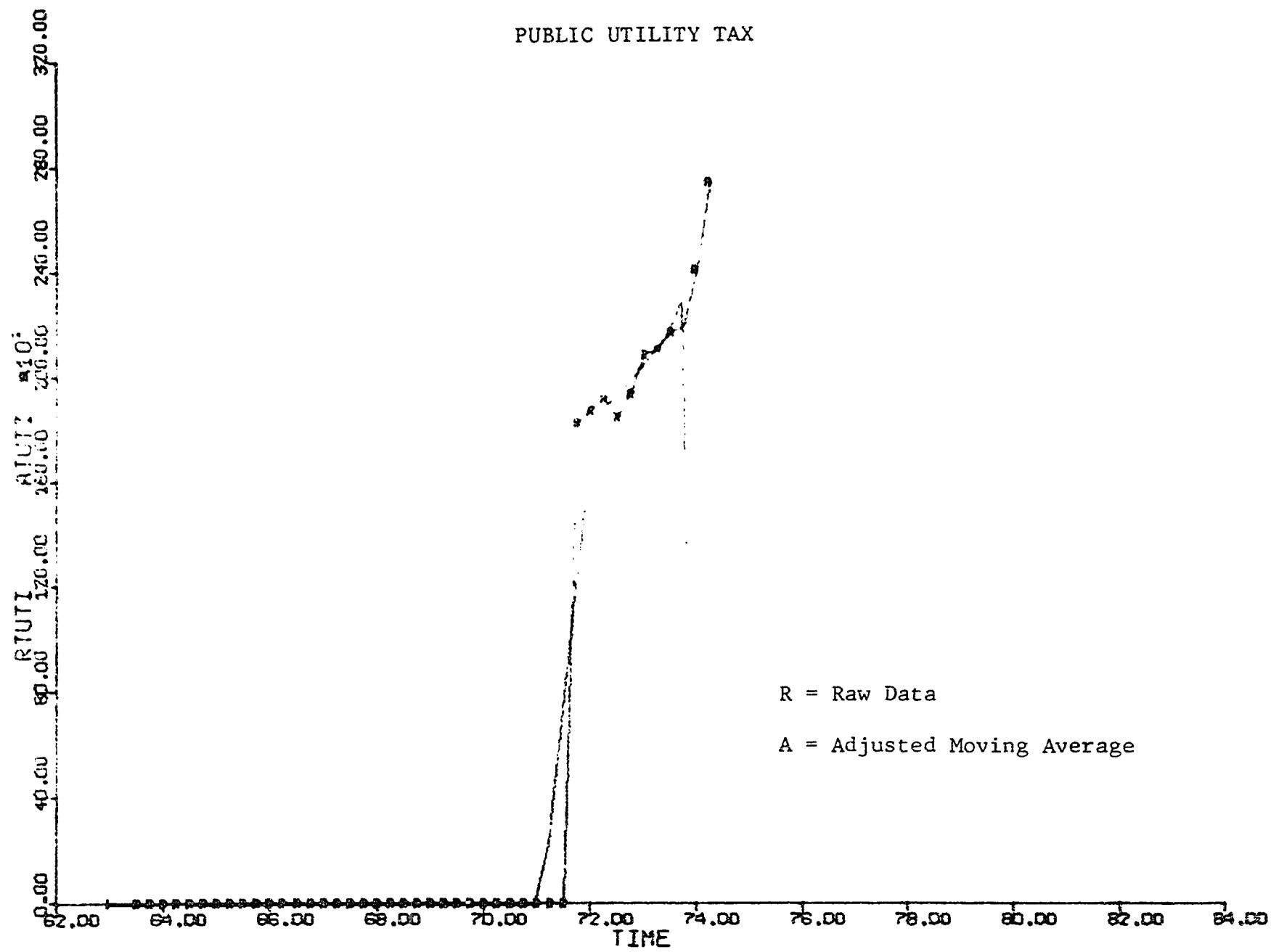
The rate of the tax is 5% of the total cost to the consumer. The tax on telephone use is expressly passed on to the consumer and is noted as a tax on the bill as received from the telephone company. However, the taxes on telegraph, electricity, gas, and cable television are specifically written into the Delaware Code to be taxes on distributors and not on consumers, but another section of the Code allows regulated industries to change their rates so that changes in the tax will not affect their net receipts. Thus it appears that it is really a direct 5% tax on consumption of these utilities, and that the tax incidence does indeed fall directly upon the consumer.

The tax is paid by the distributors to the state monthly, by the 15th of the following month. It is collected and administered by the Division of Revenue, Department of Finance.

TAX DATA

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PUBLIC UTILITY TAX



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DELAWARE CODE CHANGES - PUBLIC UTILITY TAX

<u>Effective Date</u>	<u>Description of Change</u>
8-01-71	Law into effect.
7-01-73	Telephone use by the state and its political subdivisions exempted from the tax.

## XV. OTHER TAXES

For convenience and due to their size relative to revenue generating abilities, the remaining revenue sectors are consolidated into one category, OTHER TAXES. Obviously, since they are consolidated, there will be no list of code changes or adjustments to this series. In the future, if their size or economic significance warrants it, one or all of these series will be analyzed independently. Presently, as set out in the monthly reports of the Department of Finance, they are as follows:

- a. Corporation Fees
- b. Motor Vehicle - Operator License Fee
  - Document Fees
  - Titling Fees
  - Reference Fees
- c. Dividend and Interest
- d. Hospital Board and Treatment
- e. Court Fines and Costs
- f. Motor Carrier Use
- g. Telephone and Telegraph
- h. Public Accommodation
- i. Gift
- j. Del. Tech. Tuition
- k. All Other Revenue
- l. Non-Revenue

As the graph shows, these sectors when lumped together are becoming more and more important as a revenue source and must be carefully considered when forecasting state revenues.

TAX DATA

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ALL OTHER TAXES

